

HOUSE FINANCE COMMITTEE  
January 25, 2005  
1:35 P.M.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [1:35:23 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair  
Representative Kevin Meyer, Co-Chair  
Representative Bill Stoltze, Vice-Chair  
Representative Richard Foster  
Representative Mike Hawker  
Representative Jim Holm  
Representative Reggie Joule  
Representative Mike Kelly  
Representative Bruce Weyhrauch

MEMBERS ABSENT

Representative Eric Croft  
Representative Carl Moses

ALSO PRESENT

Representative Mark Neuman; Representative Jim Elkins;  
Representative Bill Thomas; Representative Paul Seaton;  
Representative Kurt Olson; Representative Gabrielle LeDoux;  
Representative Carl Gatto; Representative Jay Ramras; John  
Hansen, Executive Director, North West Cruise Ship  
Association (NWCA); Jim Calvin, McDowell Group; John  
Shively, Vice President of Government and Community  
Relations, Holland America Lines; Don Habeger, Royal  
Caribbean; Charlie Ball, Princess Lines; Mike Windred,  
Alaska Travel Adventures, Juneau

GENERAL SUBJECT(S):

**Presentation  
North West Cruise Ship Association (NWCA)**

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 24th Legislative Session, contact 465-6814. After the 24th Legislative Session they will be available through the Legislative Library at 465-3808.

| <b>TIME</b>                | <b>SPEAKER</b>   | <b>DISCUSSION</b>  |
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| <a href="#">1:35:37 PM</a> | Co-Chair Meyer   | Convened the House Finance Committee for the purpose of taking testimony from the North West Cruise Ship Association (NWCA).   |
|                            |  | <b>NORTHWEST CRUISE SHIP ASSOCIATION</b>   |
| <a href="#">1:37:08 PM</a> | JOHN HANSEN,<br>PRESIDENT,<br>NORTHWEST<br>CRUISE<br>ASSOCIATION | Distributed a handout to Committee members. (Copy on File). He introduced the representatives from other cruise lines, Mr. Calvin from the McDowell Group, Mr. Shively from Holland America Lines, Mr. Habeger from Royal Caribbean Lines, Mr. Ball from the Princess Lines, and Mr. Windred representing Alaska Travel Adventure (ATA).<br>He pointed out the handout identifies "Economic Impacts of the Cruise Industry in Alaska, 2003" as prepared by the McDowell Group and noted the accompanying video. The presentation intends to provide background information on the cruise industry. |
| <a href="#">1:39:19 PM</a> | Mr. Hansen   | Addressed the cruise industry future of the cruise industry impacted by a passenger tax increase. He noted that in the past summer of 2004, there was 900,000 visitors to Alaska from cruise ships visits only.  |
| <a href="#">1:41:06 PM</a> |  | <u>VIDEO</u> presentation demonstrated the impact of the cruise industry on the State of Alaska and the potential to that by the proposed taxation.  |
| <a href="#">1:46:51 PM</a> | Mr. Hansen   | Concluded the video presentation.  |
| <a href="#">1:47:13 PM</a> | Mr. Hansen   | Noted that to environmental protection concerns are a high priority of the cruise industry. He listed 12,000 jobs created statewide resulting from the industry according to the McDowell report. There are approximately 1700 businesses in the State doing business because of the cruise industry.  |
| <a href="#">1:48:00 PM</a> | JIM CALVIN,<br>MANAGING<br>PARTNER,<br>MCDOWELL GROUP            | Stated that the McDowell Group is an Alaska based research and consulting firm which has been in existence since 1972. He pointed out that they came into the study with quite a bit of extensive related project work. He listed other projects done similar to this one provided by the McDowell Group. He highlighted the Southeast Conference study, which indicates local government fiscal impacts of  |

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|                            |            | <p>government. In 2003, there were around 780,000 passengers traveling to Alaska. The analysis was based on key sets of data:</p> <ul style="list-style-type: none"> <li>• Vendor data provided by the cruise lines</li> <li>• Alaska Travelers Survey</li> <li>• Department of Labor &amp; Workforce Development data and information from the Federal Bureau of Economic data</li> </ul> <p>In 2003, cruise ship passengers spent a little less than \$4 million dollars in Alaska. That is only "on the ground" spending and 85% of it was in Southeast Alaska. The cruise lines spent statewide just under \$150 million dollars in support of their operations.</p> |
| <a href="#">1:52:22 PM</a> | Mr. Calvin | Thought that a total of \$633 million dollars was spent in Alaska as a result of cruise ship activity.   |
| <a href="#">1:52:57 PM</a> | Mr. Calvin | Emphasized multiplier monies spent as a result of the 1 <sup>st</sup> hand spending. He stressed that the cruise business is a big industry in the State of Alaska's economy. There was over \$500 million dollars spent in Southeast Alaska only.   |
| <a href="#">1:53:38 PM</a> | Mr. Calvin | That money has created many jobs. The cruise line averages approximately 1,600 employees and generates \$46 million dollars in payroll.  |
| <a href="#">1:54:30 PM</a> | Mr. Calvin | Most jobs are created as a result from passenger spending and the indirect impacts result in approximately 8,000 jobs for the Alaska economy. All totaled, there are about 12,000 jobs created as a result of the cruise line industry with a payroll of \$385 million dollars.  |
| <a href="#">1:55:21 PM</a> | Mr. Calvin | Acknowledged that the cruise industry primarily impacts the coastal communities but it is spreading into the Railbelt communities more than ever. He addressed tax revenues resulting from the industry.   |
| <a href="#">1:55:57 PM</a> | Mr. Calvin | At present time, there is about \$31 million dollars flowing into local revenues from the industry and about half of those results from sales tax from spending related buying. There is \$8 million in moorage fees, \$4 million dollars in head tax, and about \$2   |

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|                            |                            | million dollars in property taxes with a total of \$31 million dollar revenue to local governments.   |
| <a href="#">1:57:03 PM</a> | Mr. Calvin                 | The McDowell Group did not provide a cost side of the equation. The revenues received and generated from the cruise ships vastly exceed what local governments are spending to support the cruise ship industry.  |
| <a href="#">1:58:09 PM</a> | Mr. Calvin                 | Addressed State level concerns. The McDowell Group worked with statewide city managers and department heads that had some knowledge of the effect of cruise ship activity. Those people identified fees generated around \$2 million dollars flowing into the general fund and at the same time could only identify \$800 thousand dollars in costs resulting from cruise ship traffic. |
| <a href="#">1:59:15 PM</a> | Mr. Calvin                 | There are few unmitigated costs from the cruise ship industry on statewide services.  |
| <a href="#">1:59:40 PM</a> | Mr. Calvin                 | Summarized that the cruise industry generates tremendous revenue and jobs to the Alaskan economy. He stressed that it is a statewide impact, not just affecting the coastal communities, but does also affect entities such as the Alaska Railroad. He emphasized that it is important to maintain realistic impression of the industry on the State's economy.                         |
| <a href="#">2:01:05 PM</a> | Representative Holm        | Questioned infrastructures that are not being replenished by the industry. He inquired if the analysis had indicated concerns, which could be addressed by the anticipated amount generated through the cruise industry.  |
| <a href="#">2:02:18 PM</a> | Mr. Calvin                 | Replied that the McDowell Group had spoken with statewide officials and were clear that revenues being generated were greater than the costs incurred. He stressed that it is important to recognize the scale of what is being discussed. He referenced Egan Drive and the impact of the buses on that road, agreeing that the industry does have an impact on the infrastructure.     |
| <a href="#">2:03:43 PM</a> | REPRESENTATIVE MARK NEUMAN | Questioned if the tax were imposed, would tourism decline.  |
| <a href="#">2:04:07 PM</a> | Mr. Calvin                 | Did not think that the tourism would  |

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|                            |  | decline with the imposition of the tax, however, he advised that if the price of something goes up, the demand go down. If someone on a limited budget, purchases a cruise ship ticket, imposing a tax could affect that persons consideration. They might spend less money at local businesses.  |
| <a href="#">2:05:29 PM</a> | Representative Neuman  | Asked the average cost of a cruise ship ticket. Mr. Calvin did not know.  |
| <a href="#">2:05:50 PM</a> | JOHN SHIVELY,<br>VICE PRESIDENT<br>OF GOVERNMENT<br>AND COMMUNITY<br>RELATIONS,<br>HOLLAND<br>AMERICA LINE | Introduced Don Habeger, Royal Caribbean Line and Charlie Ball, Princess Lines.  |
| <a href="#">2:06:39 PM</a> | Mr. Shively  | Addressed the lawsuit brought forth against the State of Alaska by the cruise ship industry. He declared that the certification process regarding the number of signatures brought forward was flawed. The industry did not really want to sue the State, however, it was the only option open. He stressed that they are not being specifically critical of the Division of Elections, however, there has not been a situation that was so close that was so punish one industry. He urged that the process be reevaluated given the weakness of that situation. |
| <a href="#">2:08:12 PM</a> | Mr. Shively  | Noted that the press does not have a "good feel" regarding what is contained in the initiative. The initiative contains four taxes, outlined on nine pages. The initiative does have constitutional concerns. The tax was proposed by the State Department in the 1990's, at which time, they decided not to implement it. It provides a new environmental scheme, which establishes standards checked by independent monitors. It also requires that the cruise line indicate their mark-up on certain items sold on board.                                      |
| <a href="#">2:09:46 PM</a> | Mr. Shively  | Enumerated the normal criteria required in an initiative process. He reiterated that the initiative is punitive. It is important that the number of signatures on the initiative must be valid before it goes to the voters.  |

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| <a href="#">2:11:18 PM</a> | Vice-Chair Stoltze | Questioned if the issue would move further than it had in the past. Mr. Shively responded that people have asked if the Legislature could address the issue; he thought that if the Legislature passed something similar, the initiative could come off the ballot. He reiterated how punitive the current initiative is.  |
| <a href="#">2:11:58 PM</a> | Mr. Shively        | Stressed that it is important that people know what is included in the initiative and that would be an educational process.  |
| <a href="#">2:12:18 PM</a> | Vice-Chair Stoltze | Asked if the industry would like to see a full legislative debate of the process.  |
| <a href="#">2:12:37 PM</a> | Mr. Shively        | Responded that decision cannot be made by the cruise industry. He expected that there would be hearings on the issue.  |
| <a href="#">2:12:50 PM</a> | Vice-Chair Stoltze | Commented on an issue happening in his district regarding cars owned by members of the industry who have moved into another jurisdiction to avoid taxation.<br>Mr. Shively explained that in 1990, a system was established for taxing rental cars, a different kind of situation. That system was in effect from 1990 to 2003. In 2003, the industry was notified that the Municipality of Anchorage decided to change it. The industry appealed that process. To date, the appeal process has not been completed. In the meantime, the industry has moved the cars into another jurisdiction. He maintained that they would pay some tax in Anchorage Municipality as the cars will be there in the summer only. A change to that system, doubles property tax for the industry. |
| <a href="#">2:14:36 PM</a> | Vice-Chair Stoltze | Addressed the ballot measure in Anchorage on the Convention Center. He asked if the industry was involved with that. Mr. Shively responded that Holland America Lines does support the space, acknowledging that the Convention Center would be an asset to that community. Vice-Chair Stoltze wanted to make sure that there was a stable policy on tax development.  |
| <a href="#">2:15:29 PM</a> | Representative     | Questioned the subject components of   |

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|                            | Hawker   | the initiative. He thought that the Legislature is supposed to have the ability to "cure" an issue before it is brought to the public. He inquired if Mr. Shively thought if there would be any way that the Legislature could pass a single bill through session regarding taxation. Mr. Shively did not know. He reiterated that there are issues regarding the initiative process and preferred not to be involved in it.  |
| <a href="#">2:17:25 PM</a> | Representative Hawker                                      | Asked about the substantive legal challenges. Mr. Shively replied that there should be legal problems with letting public know the mark up policies and vender information.   |
| <a href="#">2:18:10 PM</a> | Representative Hawker                                      | Asked about the discharge provision on the emission controls. He asked if Alaska's discharge provisions were the stiffest in the United States. Mr. Shively replied that they are.  |
| <a href="#">2:18:54 PM</a> | CHARLIE BALL,<br>PRINCESS LINES                            | Stated that the cruise lines attempt to use the Alaska standards elsewhere. Discussion followed regarding the Alaska standards. Representative Hawker voiced his concern.   |
| <a href="#">2:20:24 PM</a> | REPRESENTATIVE<br>JAY RAMRAS                               | Admitted a conflict of interest as he works in the hospitality industry, which works with the cruise ship industry. He referenced the overview document "most vulnerable" by the taxation. The person that pays the most would be the person that travels the furthest, which would affect areas beyond Anchorage. Representative Ramras questioned expenses for land tours to Fairbanks.   |
| <a href="#">2:23:58 PM</a> | DON HABEGER,<br>ROYAL<br>CARIBBEAN<br>CELEBRITY<br>CRUISES | Explained that in 2001, the industry asked a research-consulting group to test that concern regarding the kind of impact a \$50 head tax would have. It was determined that 10% surveying, thought the head tax would cause them not to come; 17% stated that they would "probably" come; 21% reported that they would probably not come. The result was that a group of travelers in that spectrum would choose not to visit Alaska.<br>He commented about the economic impacts and agreed that Interior Alaska would be affected most dramatically by the taxation. |

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| <a href="#">2:27:58 PM</a> | Mr. Ball                         | Noted that the Princess Line has invested heavily in the South Central and Interior Alaska. He observed that his company has noticed erosion in the length of the cruise passenger vacations in Alaska. Customers have decided to manage their budget by shortening their trip. He mentioned trends in tours to shorten their travel plans. He stressed that Southeast is the most reasonable place for tourists to come and maintained that the tax portion of the initiative was problematic. |
| <a href="#">2:31:34 PM</a> | Mr. Shively                      | Stated the amount of competition that Alaska is up against. Tourists will change their destination to the Caribbean instead of Alaska. He added that taxation should be done through taxing the economic activity through a State sales and income tax, which taxes the growth.   |
| <a href="#">2:33:00 PM</a> | Co-Chair Meyer                   | Inquired which lines Carnival owns. Mr. Shively stated that Carnival owns Princess and Holland but not the others.  |
| <a href="#">2:33:29 PM</a> | REPRESENTATIVE<br>CARL GATTO     | Commented on the discrepancy last year between the Office of Management and Budget (OMB) and McDowell Group indicating cruise profit amounted to 10,000% difference. He asked how that difference could be accounted for. Mr. Shively explained that information had been released before it had been checked and discussed. The McDowell Group did go back over the information; the report did not reflect the cost of government. The State has not come back to correct the analysis.       |
| <a href="#">2:34:58 PM</a> | Representative<br>Gatto          | Added that the information suggested that there were 800,000 visitors. This year, it is anticipated to be over 900,000 visitors.  |
| <a href="#">2:35:21 PM</a> | Mr. Shively                      | Responded that the State does not do much to run facilities. The industry does pay taxes and airport fees. He agreed that the figures could be argued.  |
| <a href="#">2:36:38 PM</a> | REPRESENTATIVE<br>WILLIAM THOMAS | Interjected that he was involved in the cruise ship industry. He commented on the downfalls of a public initiative process. He stated that he was surprised to see the length of the  |

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|                            |                          | <p>proposed initiative and commented on the idea of the sales tax. Representative Thomas stressed that the "threats" made by the cruise industry are "real", noting the devastating effect they had on the community of Haines. The industry has the ability to move their ships to other communities. He inquired why the 250' boats had been exempted.</p>  |
| <a href="#">2:38:31 PM</a> | Mr. Habeger              | Stated that it does follow other exemptions already listed in State law.  |
| <a href="#">2:38:57 PM</a> | Co-Chair Meyer           | Requested that the meeting not draw too much on the initiative itself but rather the process of the study. He stressed that in "fairness", the authors of the initiative should have equal time and that this meeting should deal with the economic impacts of the cruise ship business.  |
| <a href="#">2:39:52 PM</a> | Representative Hawker    | Asked if the initiative would be a revenue generating measure or a punitive measure. He noted his intent for the State to have a long-term sustainable fiscal policy. He asked if Alaska has, to date, been a "good partner" to the industry.   |
| <a href="#">2:41:15 PM</a> | Mr. Shively              | Acknowledged that the State has been good to the industry. He added that the industry wants to find a taxation schedule that continues to provide a growth for the communities without hurting the industry.  |
| <a href="#">2:42:04 PM</a> | Representative Hawker    | Noted that in the future, he would look forward to discuss the "lawsuit bounty" concept affecting the industry.   |
| <a href="#">2:42:24 PM</a> | Co-Chair Meyer           | Reiterated that intent of meeting was to discuss economic impacts to the cruise ship industry in response to comments made by Representative Kelly.   |
| <a href="#">2:42:54 PM</a> | Representative Weyhrauch | Asked if the lawsuit was dealing with the number of the signatures and not the tax issue. Mr. Shively said yes. Representative Weyhrauch stated that he has not seen a sensitivity analysis indicating the effects of a levied head tax and requested more information on that concern. He questioned why the industry recommends sales and income tax, when other people in Alaska believe that there should be greater taxation on the industry. Everyone |

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|                            |                            | wants a tax on the "other guy" and they do not want their own programs cut but want to continue to receive statewide benefits.  |
| <a href="#">2:44:46 PM</a> | Representative Weyhrauch   | Thought it would be worthwhile to have constructive dialogue on what taxation policies do make sense and would be equitable. Mr. Shively agreed to a conversation addressing these issues. He acknowledged that it is a difficult choice.   |
| <a href="#">2:45:47 PM</a> | Mr. Habeger                | Agreed that there should be a dialogue, and added that targeted taxes are not the way to go.  |
| <a href="#">2:46:05 PM</a> | Co-Chair Meyer             | Asked if Juneau was the only place that a head tax is paid. Mr. Habeger replied yes, however, that Ketchikan recently implemented a head tax, which goes toward infrastructure concerns.  |
| <a href="#">2:46:54 PM</a> | REPRESENTATIVE PAUL SEATON | Inquired the common length for a tour package in South Central Alaska.  |
| <a href="#">2:47:12 PM</a> | Mr. Ball                   | Responded that the average length last year was approximately 4.5 nights per person, off-time from the boat.  |
| <a href="#">2:47:37 PM</a> | Representative Seaton      | Asked specifically about the Interior and Fairbanks area. Mr. Ball guessed that it had declined slightly to approximately 1.5 nights. The patterns have changed over the past few years and he offered to provide by-location information.  |
| <a href="#">2:49:20 PM</a> | Mr. Ball                   | Stated that people typically pay for their vacations in cash and the packages are sold "in total". A \$50 dollar increase on a \$1200 package would be a significant increase. A value decision by the passenger has to be made regarding the costs, and changes usually come out of the land portion costs. He noted that some of the longer tours are already being subsidized in an attempt to get the passenger to opt for these longer tours. He concluded that pricing is reasonably complicated. |
| <a href="#">2:50:54 PM</a> | Mr. Shively                | Added that the cruise is basically seven days. Mr. Ball interjected that there is a roundtrip 10-day cruise out of San Francisco.   |
| <a href="#">2:51:48 PM</a> | Mr. Habeger                | Noted that it was not until this past year, that the companies added the 10 and 11 day cruises.   |
| <a href="#">2:52:15 PM</a> | Vice-Chair                 | Asked how much gaming is involved in  |

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|                            | Stoltze   | the industry. Mr. Shively, Mr. Habeger and Mr. Ball stated that all cruises have gaming. Mr. Shively commented that passengers have made their decision whether or not they are going to the Interior before they loose their money on the gambling tables.  |
| <a href="#">2:52:59 PM</a> | Vice-Chair Stoltze                                      | Voiced confusion on the manner in which the cruises are made. Mr. Shively explained the cruise destination plan happens before boarding the ship. Some people do excursions on their own after boarding the ship.  |
| <a href="#">2:54:09 PM</a> | Vice-Chair Stoltze                                      | Knew that was the goal of the industry but thought there might be exceptions.  |
| <a href="#">2:54:39 PM</a> | MIKE WINDRED,<br>ALASKA TRAVEL<br>ADVENTURES,<br>JUNEAU | Provided a brief history of Alaska Travel Adventures (ATA), a business in existence since 1978. He stressed that if the tax were incorporated, the \$50 would come out of the pocket of the small business owner. He pointed out that ATA has over 200 employees who are homeowners and pay statewide taxes. As a company, ATA owns property in most of the communities in which they operate. |
| <a href="#">2:57:20 PM</a> | Mr. Windred   | Continued, providing specifics regarding the amount ATA spends on basic expenses for operation. The more that the State government collects, the less the customers will have to spend on optional excursions. There will be cumulative effects that the consumer feels.   |
| <a href="#">3:03:05 PM</a> | Representative Gatto                                    | Asked if when excursions are advertised, if they include tax or would it be additional.  |
| <a href="#">3:04:03 PM</a> | Mr. Windred   | Informed members that it is law to advertise the cost and that the tax is added on top of that.  |
| <a href="#">3:04:25 PM</a> | Representative Gatto                                    | Inquired if there survey was language, which would indicate if a trip did not include tax, would the passenger then decide not to take that trip. Mr. Windred said that they had not administered that type of survey. ATA would depend on surveying done by the cruise ship association and the McDowell Group to come up with that type of information.                                      |
| <a href="#">3:05:08 PM</a> | Representative Neuman                                   | Commented on local infrastructure of the industry in the smaller towns and villages. He suggested that there   |

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|                            |                       | could be a "burden" on the local infrastructure by the industry. Mr. Windred noted that the infrastructure within Juneau is better because of the cruise industry. He maintained that the industry has a positive effect on the local infrastructure.  |
| <a href="#">3:06:50 PM</a> | Representative Neuman | Pointed out that Juneau does impose a tax on the industry. He commented some areas in the Interior do not do that.   |
| <a href="#">3:07:16 PM</a> | Mr. Windred           | Pointed out that most of the travelers that opt for a recreational vehicle (RV) trip or an overland package, are the more affluent travelers. He did not know when the average traveler became a "burden" on the community in which they traveled. If there were such instances, ATA would want work with to make sure that expenses are fairly covered. |
| <a href="#">3:08:09 PM</a> | Co-Chair Meyer        | <u>ADJOURNMENT</u><br><br>The meeting was adjourned at 3:08 P.M.   |